



# The characteristics and dynamics of management controls in IJVs: Evidence from a Sino-Japanese case

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## ABSTRACT

This paper examines the characteristics and dynamics of management controls in international joint ventures (IJVs) from multiple-dimensional perspectives. Adopting an in-depth case study method in the instance of a large automotive IJV formed between two Chinese and Japanese partners, the study seeks to improve on existing models by accounting for the three dimensions of management controls: *mechanism, focus, and extent*, and examining their interrelationships and dynamics. It offers the first observation on how, at the post-formation stage, parents may adjust the extent of control over specific activities or the tightness of a control mechanism to reflect environmental changes without unsettling their overall control structure; thus, a balance between stability and change is achieved. A shared but split control style is identified, supplementing previous descriptions of management style in IJVs, within which two partners share control access over the entire range of activities with broad control focus, but each possesses tight control only over certain specific activities.

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## 1. Introduction

This study investigates the characteristics and dynamics of management controls in international joint ventures (IJVs). An in-depth case study method is used to examine a large automotive IJV formed between two Chinese and Japanese partners. By providing detailed explanations unlikely to be found by using survey methods, we offer an in-depth understanding not only of what, but also of how, management controls have been exercised and evolved in the case company at post-formation stage. While previous studies have taken a static view, focusing on one or two dimensions of management controls, we seek to improve

on existing models by accounting for the three dimensions: *mechanism, focus, and extent*, and examining their interrelationships and dynamics.

Over time, IJVs have become common in a wide range of industries, due to rapid technological changes and increased emphasis on globalisation strategies (Glaister and Buckley, 1994). China, as a large growing economy with increasing international influence and a rapidly growing domestic market, is becoming more and more attractive to investors. IJV between overseas companies and Chinese firms has been one of the main modes of entry into China<sup>1</sup> (Xia et al., 2008). In the automotive industry, in fact,

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<sup>1</sup> JV was a dominant model in 1990s. Merger & Acquisition (M&A) was not encouraged until 2003. In 2004, M&A became a “primary mode” of foreign entry with the majority of FDI carried out in this form. However, in restricted industries, such as automotive, IJV is still a primary entry strategy.

this has been the only mode available, since the Chinese government does not allow wholly foreign-owned enterprises and requires that Chinese partners should hold at least 50% equity in IJVs<sup>2</sup> (Nam, 2011). Empirical evidence suggests, however, that difficulties commonly arise in managing IJVs involving Chinese partners (e.g. Child and Yan, 2003; Cooper and Johnson, 2000). Management controls have also been identified as one of the factors influencing the performance of IJVs and they have received increasing interest from researchers (e.g. Child and Yan, 2003; Yan and Gray, 2001). Despite this attention, the existing literature mainly focuses on the performance consequences of the management controls adopted, and on factors affecting the development of such controls (e.g. Luo et al., 2001; Chalos and O'Conner, 2005; Chen et al., 2010). While the adoption or otherwise of a control mechanism is usually taken as adequate representation of management controls in control–performance relationship studies, the analysis presented by previous studies fails to consider how such mechanisms have been exerted. This at least partly explains an inconsistency in the study results of the above relationship.

This study offers a systematic study of the three dimensions of management controls and their interrelationships. There are calls for the use of a multi-dimensional perspective, to achieve a better understanding of the characteristics of management control in IJVs. Geringer and Hebert (1989) characterise parent controls over IJVs as comprising three primary dimensions, namely, *mechanisms*, *focus*, and *extent*. *Mechanisms* refer to the means by which control is exercised. *Focus* specifies the areas of the IJV's operation in which control is exercised. *Extent* is the degree to which the parents exert control. While some studies combine two or three dimensions in their examination of the nature of controls (e.g. Yan and Gray, 1994; Groot and Merchant, 2000; Kamminga and Van der Meer-Kooistra, 2007; Yan, 1998; Luo et al., 2001), there has not yet been a systematic examination of the interrelationships between the dimensions.

Another underdeveloped area in the literature is the dynamics of IJV control. Previous research has paid significant attention to the early stage of IJV development and takes the view that management controls are decisively shaped at an IJV's formation stage. Within this perspective, IJV managers are viewed as passive rather than active actors and management controls are seen as static rather than dynamic systems. There is little research on how managers from different parents cooperate and compete within the control process. A few previous studies exploring the dynamics of management controls in IJVs offer no supporting empirical evidence on structural reconfiguration of controls (e.g. Yan and Gray, 1994; Kamminga and Van der Meer-Kooistra, 2007). "Structural reconfiguration" refers to changes made to an IJV governance structure, resulting in significant reallocations of management

controls between partners and/or between the parents and the venture management (Yan, 1998). The lack of supporting empirical evidence on structural reconfiguration is consistent with the reported high stability and success rates of IJVs (e.g. Newman, 1992; Beamish, 1993). The existing literature, however, does not provide a convincing theoretical rationale for, or empirical evidence on how stability of IJV control is achieved, and how the tension between stability and change in IJVs is managed. Managing the tension between stability and change could be considered more complex in IJVs than in single, stand-alone organisations due to IJVs' intercultural and interorganisational hybrid natures.

Aiming to fill these gaps in existing research, the present study adopts an in-depth case study method and examines both parents' management control practices from three control dimensions in the case company. Focusing on the post-formation stage, the case study offers opportunities to observe how the parents cooperate and compete simultaneously in the control process and how the management controls evolve.

Focusing on the post-formation stage of the case company, which was formed in 2003 between a large Japanese company and a large Chinese state-owned company, we examine the multiple dimensions of the management controls exerted by two parents, including the interrelationship between and dynamics of such controls. Through interviewing executives and managers from both parent companies, conducting site observations, and collecting archive data, a "shared but split" management control style is identified from the case study, which is seen as a complement to the types of management style identified by previous studies (Killing, 1983; Schaan, 1983). Fitting into the dynamic environments which the Sino-Chinese IJV faces, the shared but split control model allows two parents to share control access over the entire range of activities, but each possesses dominant control only over certain specific activities. The model provides a structure within which the balance between stability and change is achieved. The study also offers a first observation of evolutionary changes in management controls. Based on observation of how management controls are exerted and evolve, a theoretical framework depicting the interrelationships among multiple dimensions of management controls and their dynamics is developed. Our findings not only enrich the literature on management controls in IJVs, but also highlight possible ways to enhance the effectiveness of management controls over IJVs.

The remainder of the paper is organised as follows. In Section 2, we review theories and empirical studies of management controls in IJVs, and develop a preliminary conceptual framework. Our research methods are then discussed. Section 4 discusses case findings. On the basis of the case study, an integrated theoretical framework is developed. The final section presents conclusions and suggestions for future research.

## 2. Theoretical framework

Below, we introduce the preliminary conceptual framework derived from the existing literature as a guide to the

<sup>2</sup> It has been a government policy in the last 30 years in China that the foreign partner's shareholding in automotive IJVs should not exceed 50%. Recently, there is a serious open debate among policy advisers, analysts, and related companies on whether the restriction should be relaxed, but there are still no regulatory changes to date (<http://epaper.21cbh.com/html/2012-11/21/content.38202.htm?div=-1>).

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